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**1 (a)****Abbreviated Income Statements:**

	<u>Cash basis</u>		<u>Accrual basis</u>	
	2012	2013	2012	2013
Consulting fees revenue	\$44,250	\$43,000	\$54,000	\$48,250
Expenses	\$30,000	\$34,500	\$36,000	\$28,950
<b>Profit</b>	<b>\$14,250</b>	<b>\$8,500</b>	<b>\$18,000</b>	<b>\$19,300</b>

<b><u>CALCULATIONS</u></b>		
<b><u>CASH BASIS</u></b>		
<b><u>Consulting fees revenue - Cash basis</u></b>		<b>2012</b>
Cash collected for services performed during the year	\$42,000	
Prepaid revenue collected in 2012 for services performed in 2013	\$2,250	
<b>Total consulting fees revenues on cash basis</b>		<b>\$44,250</b>
<b><u>Expenses - Cash basis</u></b>		
Cash paid for services received	\$24,000	
Prepaid expenses - Cash paid during the year	\$6,000	
<b>Total expenses on cash basis</b>		<b>\$30,000</b>
<b><u>Consulting fees revenue - Cash basis</u></b>		<b>2013</b>
Cash collected for services performed during the year	\$43,000	
<b>Total consulting fees revenues on cash basis</b>		<b>\$43,000</b>
<b><u>Expenses - Cash basis</u></b>		
Cash paid for services received	\$25,500	
Prepaid expenses - Cash paid during the year	\$9,000	
<b>Total expenses on cash basis</b>		<b>\$34,500</b>

**CONVERSION TO ACCRUAL BASIS**

<b><u>Consulting fees revenue</u></b>	<b>2012</b>	
Cash collections	\$44,250	
Accounts receivable, beginning of the year (subtracted)	\$0	
Accounts receivable, end of the year (added)	\$12,000	
Unearned revenue, beginning of the year (added)	\$0	
Unearned revenue, end of year (subtracted)	(\$2,250)	
<b>Revenues earned during 2012 (accrual basis)</b>		<b>\$54,000</b>
<b><u>Expenses</u></b>		
Cash payments for expense items	\$30,000	
Accrued payables, beginning of year (subtracted)	\$0	
Accrued payables, end of year (added)	\$10,500	
Prepaid expenses, beginning of year (added)	\$0	
Prepaid expenses, end of year (subtracted)	(\$4,500)	
<b>Expenses incurred during 2012 (accrual basis)</b>		<b>\$36,000</b>
<b><u>Consulting fees revenue</u></b>	<b>2013</b>	
Cash collections	\$43,000	
Accounts receivable, beginning of the year (subtracted)	(\$12,000)	
Accounts receivable, end of the year (added)	\$15,000	
Unearned revenue, beginning of the year (added)	\$2,250	
Unearned revenue, end of year (subtracted)	\$0	
<b>Revenues earned during 2013 (accrual basis)</b>		<b>\$48,250</b>
<b><u>Expenses</u></b>		
Cash payments for expense items	\$34,500	
Accrued payables, beginning of year (subtracted)	(\$10,500)	
Accrued payables, end of year (added)	\$10,950	
Prepaid expenses, beg. Of year (added)	\$4,500	
Prepaid expenses, end of year (subtracted)	(\$10,500)	
<b>Expenses incurred during 2013 (accrual basis)</b>		<b>\$28,950</b>

**1 (b)**

If the statement of financial position is prepared on accrual basis, on 31 December 2013, in addition to cash, the statement would *also* show:

Receivables	\$15,000
Accrued payables	\$10,950
Prepaid expenses	\$10,500

Notes:

If accounts are prepared using accrual basis, the statement of financial position would also show:

**On 31 December 2012**

- Receivables of \$12,000 booked as assets.
- Prepaid revenues of \$2,250 pertaining to 2013 booked as liabilities (not as revenues).
- Accrued expenses of \$10,500 shown as liabilities.
- Prepaid expenses net balance in the account will be \$4,500 as assets.
- Equity account will be credited by \$18,000 net profit.

**On 31 December 2013**

- Increase in receivables of \$3000:- \$15,000 (ending balance) *less* \$12,000 (opening balance).
- Prepaid revenue balance will decrease by \$2,250 to zero:- \$2,250 (opening balance) and zero (ending balance).
- Accrued payables will increase by \$450:- \$10,950 (ending balance) *less* \$10,500 (opening balance).
- Prepaid expenses will increase by \$6,000:- \$10,500 (ending balance) *less* \$4,500 (opening balance).
- Equity account will be credited by \$19,300 net profit.

**2 (a)**

Adjusting entries are shown below:

General Journal			Page xx	
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF	DEBIT	CREDIT
30-Jun	Employee Salaries	1	\$ 9,200.00	
	Accounts Payable			\$ 9,200.00
	Being salary payable			
30-Jun	Insurance Expenses	2	\$ 900.00	
	Prepaid insurance			\$ 900.00
	Being prepaid insurance expired			
30-Jun	Accounts Receivable	3	\$10,000.00	
	Interest Income			\$10,000.00
	Being interest accrued			
30-Jun	Security Services Revenue received in advance	4	\$ 4,600.00	
	Security Services Revenue			\$ 4,600.00
	Being unearned Security services revenue now earned			
30-Jun	Depreciation	5	\$16,000.00	
	Asset Account			\$16,000.00
	Being depreciation on assets			
30-Jun	Supplies expenses	6	\$ 1,800.00	
	Supplies account			\$ 1,800.00
	Being supplies used			
30-Jun	Prepaid Rent	7	\$ 1,350.00	
	Cash			\$ 1,350.00
	Being 9 months advance rent paid on 1 April			
30-Jun	Rent expenses	7	\$ 450.00	
	Prepaid Rent			\$ 450.00
	Being 3 months rent expired			
30-Jun	Advertising expenses	8	\$ 900.00	
	Accounts payable			\$ 900.00
	Being advertising expenses accrued			

**2 (b)**

Had the entries in requirement (a) not been passed, the profit would have been overstated by \$14,650 as per the details below:

<b>ACCOUNTS</b>	<b>DEBIT</b>	<b>CREDIT</b>
Employee Salaries	\$ 9,200.00	
Insurance expense	\$ 900.00	
Interest Income		\$ 10,000.00
Security Services Revenue		\$ 4,600.00
Depreciation	\$ 16,000.00	
Supplies expense	\$ 1,800.00	
Rent expenses	\$ 450.00	
Advertising expenses	\$ 900.00	
	<b>\$ 29,250.00</b>	<b>\$ 14,600.00</b>
<b>An overstatement of profit by</b>		<b>\$ 14,650.00</b>

**3 (a)**

The 10-column worksheet for the year ended 30 June 2014 is shown below:

G.Ciic										
Work Sheet										
Month Ended 30 June 2014										
ACCOUNT TITLE	TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash at bank	\$ 13,640				\$ 13,640					
Accounts Receivable	\$ 11,800				\$ 11,800					
Prepaid Insurance	\$ 1,680			\$ 1,240	\$ 440		\$ 1,240			\$ 1,240
Land	\$ 69,200				\$ 69,200					
Building	\$ 196,000				\$ 196,000					
Accumulated Depreciation - Building		\$ 112,880		\$ 9,280		\$ 122,160				\$ 9,280
Equipment	\$ 20,120				\$ 20,120					
Accumulated Depreciation - Equipment		\$ 8,800		\$ 3,240		\$ 12,040				\$ 3,240
Accounts Payable*		\$ 16,040		\$ 5,760		\$ 21,800	\$ 4,760			\$ 5,760
Mortgage Payable		\$ 28,520	\$ 1,000			\$ 27,520			\$ 1,000	
G. Ciic, Capital		\$ 103,840				\$ 103,840				
G. Ciic, Drawings	\$ 127,360				\$ 127,360					
Fees Earned		\$ 227,920				\$ 227,920				
Rent Revenue		\$ 14,400				\$ 14,400				
Salaries Expenses	\$ 63,600		\$ 2,360		\$ 65,960		\$ 2,360			\$ 2,360
Telephone Expenses	\$ 4,520				\$ 4,520					
Interest Expenses	\$ 3,080		\$ 280		\$ 3,360		\$ 280			\$ 280
Insurance Expenses	\$ 1,400		\$ 1,240		\$ 2,640		\$ 1,240			\$ 1,240
Rates expenses			\$ 2,120		\$ 2,120					
Depreciation on equipment			\$ 3,240		\$ 3,240		\$ 3,240			
Depreciation on Building			\$ 9,280		\$ 9,280		\$ 9,280			
	\$ 512,400	\$ 512,400	\$ 19,520	\$ 19,520	\$ 529,680	\$ 529,680	\$ 22,400	\$ -	\$ 1,000	\$ 23,400
<b>Net profit/loss</b>							\$ 22,400	\$ 22,400		
<b>Note:</b>										
*Accounts payable adjustment of \$5,760 includes:-										
Rates Expenses \$2,120; Mortgage Payable \$1,000; Salaries Payable \$2,360 & Interest payable on Mortgage \$280										

**3 (b)**

The income statement, statement of changes in equity and balance sheet are shown below:

<b>G.Cilic</b>		
<b>Income Statement</b>		
<b>Month Ended 30 June 2014</b>		
<b>Revenues</b>		
Fees earned		\$227,920
Rent Revenue		\$ 14,400
<b>Total Revenue</b>		<b>\$242,320</b>
<b>Expenses</b>		
Salaries Expenses		\$ 65,960
Telephone Expenses		\$ 4,520
Interest Expenses		\$ 3,360
Insurance expenses		\$ 2,640
Depreciation - Equipment		\$ 3,240
Depreciation - Building		\$ 9,280
Rates Expenses		\$ 2,120
<b>Total expenses</b>		<b>\$ 91,120</b>
<b>Net profit</b>		<b>\$151,200</b>

<b>G.Cilic</b>	
<b>Statement of Changes in Equity</b>	
<b>Month Ended 30 June 2014</b>	
G. Clinic Capital balance	\$ 103,840
G. Clinic Drawings account balance	\$ (127,360)
Add Net Profit for the year	\$ 151,200
<b>Total Equity</b>	<b>\$ 127,680</b>



<b>G.Cilic</b>		
<b>Balance Sheet</b>		
<b>30 June 2014</b>		
<b>ASSETS</b>		
<u>Current Assets</u>		
Cash at bank		\$ 13,640
Accounts Receivable		\$ 11,800
Prepaid insurance		\$ 440
<b>Total current assets</b>		<b>\$ 25,880</b>
<u>Non-current Assets</u>		
Land		\$ 69,200
Building		\$ 196,000
Less accumulated depreciation - building		\$ (122,160)
Equipment		\$ 20,120
Less accumulated depreciation - Equipment		\$ (12,040)
<b>Total non-current Assets</b>		<b>\$ 151,120</b>
<b>Total Assets</b>		<b>\$ 177,000</b>
<b>LIABILITIES</b>		
<u>Current liabilities</u>		
Accounts payable		\$ 21,800
<b>Total current liabilities</b>		<b>\$ 21,800</b>
<u>Non-current liabilities</u>		
Mortgage payable		\$ 27,520
<b>Total non-current liabilities</b>		<b>\$ 27,520</b>
<b>Total Liabilities</b>		<b>\$ 49,320</b>
<b>EQUITY</b>		
G. Clinic Capital		\$ 103,840
G. Clinic Drawings		\$ (127,360)
Add Net Profit for the year		\$ 151,200
<b>Total Equity</b>		<b>\$ 127,680</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 177,000</b>

**3 (c)**

The closing entries at the end of the year are shown below:

<b>Closing entries</b>			<b>Page xx</b>	
<b>DATE</b>	<b>ACCOUNTS AND EXPLANATIONS</b>	<b>POST. REF</b>	<b>DEBIT</b>	<b>CREDIT</b>
30-Jun-14	Fees Earned		\$ 227,920	
	Rent Revenue		\$ 14,400	
	Income Statement			\$ 242,320
	Being closing entry for revenue accounts			
30-Jun-14	Income Statement		\$ 91,120	
				\$ 65,960
				\$ 4,520
				\$ 3,360
				\$ 2,640
				\$ 2,120
				\$ 3,240
				\$ 9,280
30-Jun-14	Income Statement		\$ 151,200	
	Net Profit			\$ 151,200